



# INTERNAL AUDIT REPORT

## Building Maintenance and Operations – Small Purchases



December 10, 2002

Roanoke City School Board  
Roanoke, VA

We have completed an audit of the Building Maintenance and Operations department small purchases. Our audit was performed in accordance with generally accepted government auditing standards.

### **BACKGROUND**

The Roanoke City Public Schools Maintenance and Operations department is responsible for maintaining the School System's buildings and grounds. The department employs trades workers to perform much of the maintenance and construction work. It uses contractors to perform renovations and construction as needed.

The Roanoke City School Board provides for procuring construction services valued at less than \$25,000 in its Policy Manual in section DJ, "Small Purchasing". Policy DJ provides that the Superintendent, or his designee, may procure services estimated to cost less than \$25,000 by "open market" or informal bidding procedures. This policy requires such purchases to be in accordance with written procedures of the school division and that those procedures provide for competition whenever practicable. The procedures referred to in the Board Policy are contained in the Department of Business Service's Procurement Manual. Those procedures require department managers to complete a School Purchase Order and obtain three competitive quotes for purchases over \$500. Purchases exceeding \$25,000 must be procured through Business Service's Purchasing division using sealed bidding or competitive negotiation.

The Municipal Auditing department received an allegation that small dollar construction jobs were being awarded without proper competition. We initiated an investigation into the allegations and determined that an inordinate number of jobs had been awarded to one construction company. Based on the results of other audit procedures, we decided that a full audit of Maintenance and Operations would be required. We briefed the School Administration and the School Board Audit Committee Chair in mid-September. The Administration and the Audit Committee Chair supported us fully in all aspects of the audit. We completed our audit work in early November and have worked with the School Administration to address the findings noted.

**PURPOSE**

The purpose of this audit was to investigate allegations that small dollar construction jobs were being awarded without following required procedures for obtaining competitive pricing.

**SCOPE**

All small construction jobs awarded by the Maintenance and Operations department using informal bidding procedures and executed between July 01, 1999 and October 31, 2002. Our scope was expanded to include certain purchases of small equipment over the same period and a limited evaluation of the process used to account for small equipment.

**METHODOLOGY**

We interviewed a number of staff in Maintenance and Operations to determine the normal procedures followed for procuring purchases valued at \$500 to \$25,000. We reviewed the purchase order files that were setup by vendor and selected vendor files for review based on their size. We took possession of those files and retained them in the Auditing department for the duration of the audit.

Our review of the purchase orders indicated that we should concentrate on purchases awarded to one construction company. We identified all payments on record in the School System's accounting records issued to the construction company in question and matched each payment with its related purchase order. We input all of these payments and the competing quotes as noted on the purchase orders into a spreadsheet. We then sorted the spreadsheet to identify companies providing five or more quotes and who were never awarded jobs. We identified five companies and arranged to interview representatives at each of those companies. We reviewed the description of work and the prices quoted on each purchase order with the company representative. We then interviewed the Director of Maintenance and Operations again about who obtained quotes and the process for developing quotes. Based on the results of this work, we prepared rough cost estimates for two jobs under review and we determined that an independent estimator should be retained to provide quotes on a larger sample of jobs.

We selected an independent estimator that was a licensed and insured general contractor with no history of working for either the City or School System. We interviewed him to insure he had no relationship with the contractor under review or employees in the Maintenance and Operations department. We judgmentally selected ten of the jobs awarded without competition for the estimator to price. The estimator was given the description of the work taken directly from the purchase orders and was accompanied by the Municipal Auditor and the Director of Maintenance and Operations to the job sites.

We also evaluated the purchases under review for compliance with certain provisions of the Virginia Public Procurement Act (VPPA), Roanoke City School Board policies, and the School Division's Procurement Manual.

Our work related to equipment purchases included interviewing employees about the process for ordering, receiving, and tracking small equipment. We also walked through the equipment rooms and the warehouse. We contacted vendors listed as quoting on equipment purchase to verify the quotes documented.

## **RESULTS**

### **Finding 01: Jobs Awarded without Competition**

We identified 52 jobs with total payments of \$394,450 that were awarded to one company in fiscal years 2000 through 2003 without properly obtained quotes. We determined that one competitor listed as quoting on 32 of the jobs, is in fact the winning contractor's brother-in-law. Based on our interviews with the brother-in-law and our investigation into his company, we determined that he could not be considered a competent competitor. We also determined that the vast majority of other companies listed as giving quotes, in fact were never contacted for the quotes in question. In some cases, vendors were listed as providing a quote for services they do not perform, such as installing playground equipment.

Roanoke City Public School's procedures require departments making purchases expected to exceed \$500 to document three competitive quotes. The quotes are to be documented on a School purchase order and submitted to Business Services for review and approval. We noted that the procurement procedures do not require job specifications to be given to contractors nor do they require that quotes be in writing and filed with the purchase orders.

### **Recommendation 01: Jobs Awarded without Competition**

The School Administration has already initiated a review of their Procurement Manual. They plan to require written specifications be developed for all small construction jobs. Written specifications should help ensure contractors are bidding on the same work and that the work is properly completed. The Administration also plans to require written quotes from contractors be obtained and filed with the purchase orders.

In addition to the proposed revisions to the procurement procedures, we suggest that Business Services periodically verify quotes for purchases under \$25,000. This would involve calling vendors listed on purchase orders as having given quotes. Business Services should identify themselves to the vendor and ask if the vendor provided a quote and the price that was quoted. Business Services should keep a record of the purchase orders verified to document that this control measure is regularly exercised.

### **Management's Response 01: Jobs Awarded without Competition**

Management agrees with the recommendations. The review and update of the Procurement Manual and School Operations Manual will be completed by December 15. Written procedures were provided to the department of School Plants on November 12 concerning the use of written specifications and written quotations to obtain quotes for small construction jobs. Quotes will be filed with purchase orders. The Controller will perform an internal audit of quotations received on purchases over \$1,000 but less

than \$25,000. The audit will be performed quarterly by selecting a minimum of 10 purchase orders processed during the past 90 days and verifying in writing with the vendor the validity of the quotation. A written report will be filed with the Assistant Superintendent for Operations by the Controller detailing the results of the review.

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### **Finding 02: Emergency Purchases**

We identified 19 jobs awarded to the same contractor identified in finding 01 above, which were awarded as emergency purchases for safety or health reasons. School Board Policy and School division procedures allow departments to award purchases without competition on the basis of an emergency involving safety or health. However, the department involved must complete a quotation exception form documenting the reason for the emergency purchase. We reviewed the exception forms involved and noted that 16 of 19 did not adequately describe the reason for classifying the purchase as an “emergency”. We also noted that six (6) of the 19 jobs awarded on an emergency basis took over one month to complete, with one taking over three months. Payments for these six (6) jobs totaled \$24,185.

We also identified one (1) purchase order that did not list any quotes and which had no explanation as to why the job was awarded without competition. There was no quotation exception form on file in either the Maintenance and Operations department or the Business Services Department for this purchase order.

### **Recommendation 02: Emergency Purchases**

We suggest that the Director of Business Services require fuller explanations to be documented on the quotation exception forms. Departments should be required to describe what precipitated the need, what the health or safety risk is specifically, and the date on which the work will be completed. The Director of Business Services should be more inquisitive about work that is simply described as “for safety or health” and deny those requests until a satisfactory case for urgency is documented.

### **Management’s Response 02: Emergency Purchases**

Management agrees with the recommendation. Written guidance has been provided to the Director of Business Services requiring specific review of the appropriate justification provided for the use of a quotation exception. The quotation exception form has been revised to reflect the requirement for detailed written justification for the exception.

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### **Finding 03: Above Market Pricing**

We judgmentally selected ten jobs determined by our audit to have been awarded without competition. We retained a general contractor to provide independent, blind estimates for performing the work for each job. Overall, the general contractor’s estimate for the ten jobs selected was \$78,558 as compared to the \$91,526 actually

paid for those jobs. This is a difference of \$12,968 or 16.5%. Eight of the ten jobs were estimated at lower costs than actually paid. Attachment A to this report lists the ten jobs selected for estimation and the results of the independent market study.

### **Recommendation 03: Above Market Pricing**

Recommendations 01 and 02 will address the causes of this finding.

### **Management's Response 03: Above Market Pricing**

Management agrees with the recommendations provided in findings 01 and 02. Additionally management has initiated action to hold a small contractor's workshop within the next 60 days to identify small contractors willing to perform school work and to familiarize them with the procurement process. Management also is in the process of identifying a minimum of 10 small contractors who can provide quotations on school work requirements that may occur within the next 60 days. Management also will provide an opportunity for small contractors new to school work to demonstrate their work capability by awarding them one project costing less than \$2,500 in order to evaluate their work performance.

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### **Finding 04: Required Contract Provisions**

The Virginia Public Procurement Act (VPPA), sections 2.2-4311 and 2.2-4312, requires that purchase orders or contracts for services that exceed \$10,000 include provisions related to non-discrimination in hiring and maintaining a drug-free work place. Contractors must agree to these provisions in order to be awarded the work. State Code section 2.2-4332 also requires that construction contractors and subcontractors be made to provide proof of workers compensation coverage when contracted to do work for the state or local governing bodies.

The School System's purchase orders do not include the required provisions and are not signed by the contractors. The School System's procurement manual does not require that a written contract be prepared for small purchases up to \$25,000. We identified 18 small construction jobs in our testing that exceeded \$10,000 and were awarded without having the contractor agree to the required provisions. The School System's procurement manual also does not address the requirement for construction contractors to provide proof that they have workers compensation coverage.

### **Recommendation 04: Required Contract Provisions**

The School Administration is developing a contract template that could be used to document agreement to the provisions required by the State. Procedures will be changed to require the standard contract to be used for all purchases exceeding \$10,000. Once the revisions to the Procurement Manual are completed, we suggest that the Purchasing department provide an in-service on the manual and procurement laws to all school personnel involved in procuring goods and services.

**Management's Response 04: Required Contract Provisions**

Management agrees with the recommendations. All small construction jobs costing more than \$10,000 are now required to have a written contract that incorporates the provisions required by the State Procurement Code. The contract will be approved and signed by the Director of Business Services. Changes to the Procurement Manual and School Operations Manual will be completed by December 15 to be placed into effect January 1, 2003. The Assistant Superintendent for Operations will hold on or about January 15 a workshop with all supervisors and principals to review the current and revised purchasing and inventory procedures.

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**Finding 05: Small Equipment Purchases**

School division purchasing procedures require equipment purchases exceeding \$500 and up to \$25,000 to be procured using the same informal bidding procedures described earlier in this report. Departments are required to complete school purchase orders and list three competitive quotes. School division procedures also require that equipment valued at \$200 or more be entered into the fixed asset accounting system and that the equipment be stenciled or engraved as RCPS property. The Warehouse division is responsible for maintaining the fixed asset accounting records.

Based on our limited review of equipment purchases, inventories, and the fixed asset records, we noted the following concerns.

- Duties were not adequately segregated. The former Supervisor of Maintenance and Operations was initiating purchases, completing purchase orders, approving purchase orders, picking up equipment from the vendors, and had unrestricted access to the equipment storage rooms. This has made it impossible to account for school property with any acceptable degree of certainty. This has also resulted in the overstocking of certain types of equipment such as chainsaws.
- Equipment purchased by Maintenance and Operations was in many cases not properly reported to the Warehouse for entry into the fixed asset system and was not stenciled or engraved. As a result, the fixed asset records are incomplete and again; it is impossible to account for school property with any acceptable degree of certainty.
- We identified four purchase orders for equipment on which the competing quotes were fabricated.

**Recommendation 05: Small Equipment Purchases**

The School Administration has met with the Maintenance and Operations staff and the Warehouse Supervisor to review the procedures for purchasing equipment. All equipment purchased will now be delivered to the Warehouse except in extraordinary cases where the item is large and should be delivered directly to the site where the item is to be installed. The Warehouse will engrave and stencil all equipment and record

identifying information (model number, serial number, price, location where item will be stored/used, date received, etc.). Access to equipment rooms at Maintenance and Operations has now been restricted to the Equipment Operator and the Maintenance Supervisor. The Administration has also instructed Maintenance and Operations to inventory all of its equipment on individual index cards and to establish a system of signing out equipment.

Beyond these immediate changes to address the audit concerns, the Administration will be considering long-term improvements that can be made to make the process more manageable. This may include raising the threshold for entering assets on the fixed asset system, assigning responsibility for managing small equipment inventory to the departments, and looking for technology that can be used at the department level to inventory and track small equipment.

### **Management's Response 05: Small Equipment Purchases**

Management agrees with the recommendations. Actions taken by November 15 to resolve small maintenance equipment inventory findings include: all locks on maintenance equipment storage rooms were changed and access limited to the supervisor and equipment technician; all small maintenance equipment on loan was returned to the School Plants Department; a physical inventory was taken of all small maintenance equipment and results posted to inventory cards; equipment not engraved was appropriately engraved; and written guidance was provided to maintenance supervisors regarding small maintenance equipment sign out and control procedures.

Additionally, all supervisory and warehouse personnel were reminded of the requirement that all equipment items be shipped by the vendor to the warehouse. Warehouse personnel will inventory and engrave the item and then deliver it to the appropriate location. Only warehouse personnel are allowed to pick-up items from a vendor – supervisors and other non-warehouse personnel cannot pick up equipment items from the vendor. The Department of Business Services will review equipment purchase orders to ensure the delivery address is the school warehouse. An exception to the procedure only will be approved by the Assistant Superintendent for Operations in order to facilitate installation of the equipment by the vendor or emergencies. In which case warehouse personnel will visit the site to inventory and engrave the item(s) on receipt.

Fixed asset inventory procedures are being changed to raise the threshold for the management of capital asset items to a minimum of \$5,000 – the same threshold as used by the City. The inventory of capital assets will be managed by the Department of Business Services with a physical inventory to be performed each June.

An automated inventory file of all capital assets with a value of more than \$200 and less than \$5,000 will be maintained by the school warehouse and updated weekly with equipment transactions. The inventory will be provided to the appropriate department director (e.g., the Director of Instructional Technology will be responsible for technology equipment) annually in June in order for the department director to perform a physical inventory of the assets. Each director will file a report by August 1 with the Assistant Superintendent for Operations detailing the results of the physical inventory.

The Controller also will perform an internal audit of equipment inventory procedures by selecting a minimum of 10 equipment purchases received during the past 90 days and reviewing the location of the item(s) on the inventory record and at the school site. A report on his findings will be presented to the Assistant Superintendent for Operations.

The new inventory control procedures will be incorporated into the School Operations Manual and placed into effect on January 1, 2003. The procedures will be reviewed at the January procurement workshop.

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## **CONCLUSION**

Based on the results of our audit work, we conclude that purchases of equipment and construction services were awarded without following required procedures for obtaining competitive pricing and in violation of certain provisions of State law. We have referred our findings to the Commonwealth Attorney for further investigation.

We believe that the School Administration has taken the appropriate steps to address the issues noted in the audit. We would like to thank the many school employees that worked with our department throughout the audit. Their commitment to the Roanoke City Public Schools organization and ethical conduct contributed greatly to the audit process. We would also like to thank the Assistant Superintendent for Operations and the Superintendent for their support, assistance, and timely response to issues that were raised during the audit.



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Brian Garber  
Senior Auditor



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Drew Harmon, CPA, CIA  
Municipal Auditor



## Maintenance and Operations

## Attachment A

PO	Date	School	Price Paid	Estimate	% Variance	Nature of work
64006	08/30/01	Madison	\$2,376	\$1,110	114.05%	Materials and labor to install clear view window in main office wall at front entrance. To include safety glass, paint and finish window trim work.
64007	08/30/01	Madison	\$6,936	\$5,999	15.62%	Labor and materials to install ADA approved concrete ramp adjacent to cafeteria front door entrance. To include all required rails and constructed at approved degree of incline.
64296	09/10/01	Raleigh Court	\$12,620	\$10,058	25.47%	Materials and labor to install deck, underpinning and sidewalk to modular classroom
65753	10/19/01	Highland Park	\$4,728	\$4,250	11.25%	Removal of rusted restroom stalls and doors. Materials and labor to install new stalls, doors and hardware in two girl's restrooms.
66423	11/07/01	Addison	\$10,800	\$6,570	64.38%	Labor and materials to remove and replace the front sidewalk area above sewer line that is to be removed and replaced by Weddle Plumbing and Heating
67960	01/09/02	Crystal Spring	\$8,486	\$9,937	-14.60%	Materials and labor to install playground equipment provided by PTA. Also includes work to install forms and finish concrete to complete walk adjacent to playground equipment. Concrete for walk provided by PTA
70274	03/20/02	Woodrow Wilson	\$12,280	\$12,999	-5.53%	Labor and materials to install ADA standard zigzag ramp from upper level to playground equipment. Curb cut and ramp at the end of the sidewalk.
72837	06/07/02	Round Hill	\$7,600	\$5,542	37.13%	Labor and materials to install playground equipment per specifications
72866	05/01/02	Fairview	\$11,220	\$9,094	23.38%	Sawcut blacktop to tear out concrete curb. Take out 220' curb and repour. Take out 60' broken sidewalk and repair. Replace blacktop to curb. Clean up and haul away all debris
73913	07/31/02	Addison	\$14,480	\$12,999	11.39%	Labor and materials to grade and install new sidewalk to connect existing at corner and extend along the Orange Avenue side to asphalt at adjacent corner
<b>Totals</b>			<b>\$91,526</b>	<b>\$78,558</b>	<b>16.51%</b>	